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DEFENSE FINANCE AND ACCOUNTING SERVICE

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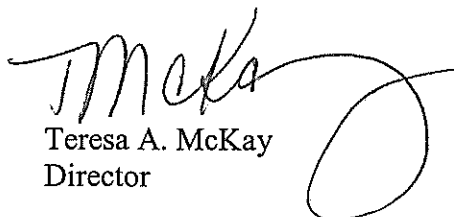
MEMORANDUM FOR PRINCIPAL DEPUTY DIRECTOR
DEPUTY DIRECTOR, OPERATIONS
DEPUTY DIRECTOR, STRATEGIC BUSINESS
MANAGEMENT

SUBJECT: Managers' Internal Control Program (MICP)

The Managers' Internal Control Program (MICP) was established by Public Law 97-255, the Federal Managers' Financial Integrity Act of 1982 (FMFIA). The law was enacted to ensure efficient and effective management of government resources. It requires all federal agencies to establish management controls that provide reasonable assurance that: obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; revenues and expenditures are properly recorded and accounted for; and programs are efficiently and effectively carried out according to applicable law and management policy. The law requires the head of each agency to report annually to the President and Congress on whether or not they are in compliance with the FMFIA.

To comply with OMB and DoD guidance in the past, the emphasis of the MICP had been on the collection and submission of Directorate material weaknesses by the Director, Defense Finance and Accounting Service (DFAS) through the annual Statement of Assurance on Effectiveness of Internal Controls "Over Non-Financial Operations" to the Secretary of Defense. An effective MICP includes review of program, operational and administrative controls in functional areas, not just those identified by internal or external auditors.

Our approach to executing the MICP embraces and incorporates a risk-based, self-reporting framework—Self-Identified Deficiency Reporting—which complements and relies upon internal stakeholders' understanding, documentation and assessment of their functional areas to proactively assess and report (through their chain of command) upon the highest risks identified for each function. This approach provides us with the latitude to address these risks before the mission is adversely impacted. During fiscal year 2011, we will further strengthen our MICP by continuing to integrate compliance and audit components under one enterprise risk management framework.


Teresa A. McKay
Director